

## Riba Threat in al-Quran and Economic Crises

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**Abstract:** Every threat said by Allah in the Holy Al-Quran is definitive and could not be denied by human's logical think and their limited effort. The threat that clearly stated in verse 279 Surah al-Baqarah to those riba practitioner, should bring its own interpretations and meanings that were justified by scholars and modern experts This paper relies on secondary sources from several books of tafsir, explanations of related contemporary Islamic scholars and also views from economic experts pertinent to riba practice implications that hit world economy so far, in effort to establish a linkage between them with the word of 'harb' as revealed in the verse. Hence, this paper finds that riba as practices widely in modern conventional banking system had brought negative impacts on economic sectors where it simultaneously effected on human activities. The term of inflation, deflation, recession and crisis always been heard and said since the early of 20th century until today

**Keywords:** al-Qur'an; riba; economy.

**Abstrak:** Setiap ancaman yang disebut oleh Allah di dalam Al-Quran merupakan satu kepastian yang tidak dapat disangkal oleh kelemahan akal dan daya manusia. Apabila Allah mengancam memerangi golongan pengamal riba sebagaimana dinyatakan di dalam ayat 279 Surah Al-Baqarah, sudah pasti ia memiliki maksud dan huraian tersendiri yang dapat dilihat menerusi kefahaman para Ulama dan komentar dari pakar di zaman ini. Kertas ini menumpukan kepada rujukan sekunder di dalam kitab-kitab tafsir dan hurain para cendekiawan islam kontemporari yang berkaitan, serta ulasan dari perspektif pakar ekonomi mengenai implikasi amalan riba yang telah menimpa ekonomi dunia setakat ini bagi dihubungkan kepada maksud 'harb' sebagaimana yang dinyatakan di dalam ayat tersebut. Kertas ini mendapati bahawa riba yang diamalkan hari ini oleh sistem perbankan dunia telah memberi kesan negatif kepada sektor ekonomi yang sekaligus memberi kesan kepada aktiviti manusia. Istilah deflasi, inflasi, kemelesetan dan krisis tidak pernah lekang dari kamus ekonomi dunia sepanjang abad ke-20 hinggalah ke abad ini.

**Kata kunci:** Al-Quran; Riba; Ekonomi.

### A. Introduction

Riba was prohibited by all devine religions includes Jews and others human-innovation religions such as Buddhism for the reason of cruelty and oppression.<sup>1</sup> The

prohibition of riba was known from the earliest of human civilisation. It was rejected due to its nature that contravenes with the principles of humanity that promoted by Islam, that known as

<sup>1</sup>Ahmad Khalid, Omar Abdullah and Syed Mohammad Faisal. Muamma (conundrum) of Riba (Interest and Usury) in Major Religions in General and Islam in

Particular. *The International Journal of Social Sciences and Humanities Invention*. 5(02, 2018), 4438-4443.

a religion which denounces exploitation and oppression on upon mankind).<sup>2</sup>

Allah SWT says in the verses of Surah al-Baqarah that bring the meaning:

O ye who believe! Fear Allah, and give up what remains of your demand for usury, if ye are indeed believers (278)

If ye do it not, Take notice of war from Allah and His Messenger. But if ye turn back, ye shall have your capital sums: Deal not unjustly, and ye shall not be dealt with unjustly (279).

This verse was revealed and directed to Abbas bin Abdul Mutallib and Uthman bin 'Affan who practiced riba in their dates business. On the promised date of dates delivery, their customer had asked for postponement by promising the additional quantity of dates will be delivered in future, and it was agreed by them. After this event had been informed to the Prophet (PBUH) he disagreed with the action and followed by the revelation of the verses. Consequently, they obeyed the command from the Prophet (PBUH) and took only the capital from the customer.<sup>3</sup>

Al-Tabari had recorded in this famous tafsir where Ibnu 'Abbas interpreted the verse by saying:

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<sup>2</sup>Ummi Kalsom, *Riba dan Bunga Bank dalam Islam*, Jurnal al-'Adl. Vol. 7. No. 2. (2014), 67-83.

<sup>3</sup>Al-Tha'labi, Ahmad bin Muhammad, A.I., *Al-Kasy wa al-Bayan 'an Tafsir al-Quran*. (Dar Ihya al-Turath al-'Arabi. Jilid 2, 2002), 284.

Whoever currently still practicing riba, are prevented from any seize action but must be advised by the ruler for him to repent from the practice otherwise he could be punished.<sup>4</sup> Narrated by Ibnu 'Abbas also :On the judgement day, it will be said to riba practitioner, prepare yourselves with your weapon and let's have a war.<sup>5</sup>

Meanwhile, Hassan al-Basti and Ibnu Sirin had reported: By Allah's name, they are a people who involve in money exchanges by doing riba, they are people who will have a battle with Allah and His messenger. They should be asked to repent by ruler, if not, war is allowed on them. Al-Samarqandi (n.d) clarified that the war mentioned in the verse is a destructive curse from Allah, whereas it also perceived as an enmity from Allah and His Messenger (Al-Mawardi, t.t). Some interpreted the word 'war' is an excessive word in describing the massive impacts brought by the practice. There were also scholars who explained that the war mentioned by Allah is very destructive that only knew by Allah SWT.

The famous reformist Egyptian scholar, Syeikh Rashid Redha who died on 1935 had experienced the effects of riba in his era. Therefore, the explanation given by him

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<sup>4</sup>Al-Tabari, Muhammad bin Jarir, A.J., *Jami' al-Bayan fi Ta'wil al-Quran*, (Beirut: Muassah al-Resalah. Jilid 6, 2000), 12.

<sup>5</sup>Al-Iji, Muhammad bin Abdul Rahman, *Jami' al-Bayan fi Tafsir al-Quran*, (Beirut: Dar al-Kutub al-'Ilmiyah. Jilid 1, 2005), 207.

regarding the verses could be seemed as different from previous scholars' comment. He continued that the permission of war expressed by Allah could be viewed in different shapes. Among them are rich man getting poorer after involved in riba and also and people who always been overwhelmed by curious due to the burden of provoding new jobs in accommodating capital provider who practices.<sup>6</sup>

Syeikh Muhamamd Mutwalli al-Sya'rawi explained that the word 'harb' means war on riba practitioner could not be described as Allah says in another verse in Surah al-Mudathir verse 31 that means: as no one knows the forms of Allah's soldiers. Besides, the declarion of war in the verse indicates the strength of the impacts could not been accepted and defended due to the massiveness. Even it brings negative connotation when it understood as disaster, it definitely aims to purify the life of believer people from the sin of riba.<sup>7</sup>

It also could be viewed from the perspective of its effects on socio economic impacts when surplus unit in ecosystem might try to avoid any risk in loan agreement.<sup>8</sup> The scenario

might become worse when they started to impose several charges on deficit unit in upgrading their economic status.

Riba practice is categorized as 'bloodsucker' action upon needy people whereas Islam promotes *rahmah* values in every single commandment, curses people from depression and exploitation others' weaknesses for the interest of wealth expansion. Moreover, Islam encourages giving loan without any interest under the name of cooperation or donation or *qard hasan* without any profit will be taken from it. However, making profit from loan is a major crime that could not be accepted and compromised until war shold be directed towards them.<sup>9</sup> There are three groups of Muslim scholars or scholars who differ. The first group declared usury prohibited, both many and few levels. This group is widely supported by fiqh scholars, including contemporary scholars such as Abu al-A'la al-Maududi, Hasan al-Banna, and others. The second group only forbids usury law which multiplies only. Including this group for example Muhammad Abduh, Mahmud Syaitut. In Indonesia economists such as Sjafruddin Prawiranegara and Muhammad Hatta, also included

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<sup>6</sup>Mohd Rashid bin Ali Ridha, *Tafsir al-Manar*, (Kaherah: al-Haiyah al-Misriyah al-'Ammah li al-Kutub. Jilid 3, 1990), 86.

<sup>7</sup>Al-Sya'rawi, Muhammad al-Mutawalli, *Tafsir al-Sya'rawi*, (Cairo: Akhbar al-Yaum Publication. Vol 2, 1997), 1202-1203.

<sup>8</sup>Borhan, Joni Tamkin; dan Saari, Che Zarrina, *An Analysis of The Prohibition of Riba*

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*in the Quran*, Jurnal Usuluddin, [S.l.]. v. 19. ISSN 0128-0708, (June, 2004), 45-60

<sup>9</sup>Solahuddin Majid, *Min Malamih al-Iqtisod al-Islamiy*, (Baghdad: Dar al-Nazir li al-Tiba'ah wa al-Nashr wa al-Tauzi'. Ms, t.t.), 34-35.

people who did not enter the interest money category as usury.<sup>10</sup>

Prophet Muhammad (PBUH) was reported to say:

الربا ثلاثة وسبعون باباً، أيسرها مثل أن ينكح الرجل أمه، وإن أربا الربا عرض الرجل المسلم

The meaning:

Riba have seventy-three ways, the easiest one is to have adultery with his own mother and the heaviest is to tarnish the dignity of other muslim.

The analogy given from *hadith* above is to describe the awfulness of riba that worse than adultery with own mother because adultery is an agreed action while riba is to seize other's wealth in coercion without their consent.<sup>11</sup>

In the other *hadith*, Prophet said:

درهم من ربا يأكله الرجل وهو يعلم أشد من ست وثلاثين زنية

The meaning:

One dirham produced from riba ate by a man while he knows that is worse than thirty -six adulterers.

Riba that spreaded and practiced by ancient Arabs was through loan

using dinar and dirham for a certain period, and paid back with additional amount from what had they agreed upon the contract, had been nullified and prohibited by Allah.<sup>12</sup>

The most famous riba items are gold and silver that represented by dinar and dirham. The creation of fiat money as a replacement for gold and silver at initial was printed backed by gold's price. After the Bretton Woods 1968-1973, money was not printed and backed anymore by gold's price, that makes money lost its intrinsic value and allows many ways or manipulation on its functions that played by gold and silver before.<sup>13</sup>

Today, we are using fiat money which plays roles of gold and silver as measurement value in accommodating transactions, originated from the practice of keeping jewelleries at the goldsmiths. It had been recorded that the goldsmiths had issued receipts with fake amounts that did not commensurate with the value of jewelleries under his custody. Consequently, it led to fraudulent and faking in money issuances. After sometimes, it was adopted gradually and seemed as common practice in

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<sup>10</sup>Thohir, M. Etika Perbankan Syari'ah. *IQTISHODUNA: Jurnal Ekonomi Islam*, 6(April, 2017), 118-135. Retrieved from <http://ejournal.iaisyarifuddin.ac.id/index.php/iqtishoduna/article/view/167>

<sup>11</sup>Ali bin Sultan Muhammad, Al-Qari, *Murqat al-Mafatih fi Syarh Mishkah al-Masobih*, (Beirut: Dar al-Fikr, 2002).

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<sup>12</sup>Al-Salus, Ali bin Ahmad, *Fiqh al-Bai' wa al-Istithaq wa al-Tatbiq al-Mu'asir*, (Doha: Dar al-Thaqafah, 2006), 273.

<sup>13</sup>Tom Verplancke. Does Money Matter in Islamic Economics: Gold, Silver, Riba al-Fadhl and Riba al-Nasihah. (Tesis Master: 2017). Diakses dari <https://openaccess.leidenuniv.nl> at July 2018.

fractional reserve banking system as implemented in our modern banking system. Eventually, money issued today is only a piece of printed paper without carries any derived values.<sup>14</sup>

## 2. Riba in Human Civilisation

Riba or interest as used in banking system had been discovered to be practiced in the ancient ages or pre-historic centuries. For instance., Sumerian (3000 b.c) had their own comprehensive system in imposing charges or interest on loan as a guideline in structuring loan contract. Wheat was used as a medium in quantitative loan while iron used as a benchmark for scaling items.<sup>15</sup>

All revealed religions were recorded to blame riba practice in loan contract even for a cost had incurred.<sup>16</sup>Hammurabbi (1800 b.c) a famous Babylonian leader, promulgated various laws in blocking ways to this forbidden practice. Then, lesson understood from Deutronomy had been executed through Roman Law in alleviating riba before it had been commenced by Islam. Notwithstanding, it still been

<sup>14</sup>Usmani, M.T., *The Text of The Historic Judgment on Riba given by The Supreme Court of Pakistan 23<sup>rd</sup> Dec. 1999*, (Petaling Jaya: The Other Press, 2001).

<sup>15</sup>Sidney Homer dan Richard Sylla, *The History of The Interest*, (New York: Rutgers The State University, 1996).

<sup>16</sup>Muhamamd Ayub, *Qur'an, Hadith and Riba Connotation*, *Journal of Islamic Business and Management*. Retrieved from JIBM website, (2012).

practiced in today's financial system without any unfamiliarities and strange.<sup>17</sup>

For Jewish, riba is only prohibited among them and allowed to be taken from others, or.<sup>18</sup> Great Greek philosopher, Aristotle had criticized harshly riba or interest and called it as immoral act through loan or item exchange. He referred to the idea 'uninvested money could not produce another amount or value of money.<sup>19</sup>

There are two types of usury or interest used in financial system, first, known as legal usury that charged on borrower. As example, if only 2 percent is allowed for loan interest, imposing more than 2 percent considered as legal usury. Second, moral usury defined as interest taking from borrower without consent and acknowledgement from them.<sup>20</sup> Therefore, any interest imposed on loan is perohibtied in Islam but

<sup>17</sup>Rudolph C.Blitz and Millard F.Long, *The Economics of Usury Regulation. Journal of Political Economy*. Vol. 73. No.6 Chicago: The University of Chicago Press (Dec, 1965), 608-619.

<sup>18</sup>Mujar Ibnu Syarif, *Konsep Riba di dalam Alquran dan Literatur Fikh*, I-Iqtishad: Vol. III, No. 2., (2011).

<sup>19</sup>Hussain Umar, *Tatawaur al-Fikr al-Iqtisodiy Qadiman wa Hadisan wa Mu'asiran*, (Kaherah: Dar al-Fikr al-'Arabiy, 1994), 38-39.

<sup>20</sup>Reginald Heber Smith. *Rethinking Usury Laws*. *The Annals of the American Academy of Political and Social Science*. Vol.196. Consumer Credit (March, 1938), 189-192. Sage Publications, Inc. inassociation with the American Academy of Political and Social Science .

accepted in by western people, otherwise it could not be charged over the limit allowed.

Abovementioned concept shows their wrong understanding towards money's functions. Money is perceived as productive economic tool and every interest derived from it must be appreciated. Hence, the imposition of interest on loan is acceptable justified as a rental cost for money usage (Luigi Miraglia, 1912).

Simon Yannick dan Fouda Ekobena (n.d) prove that the increment of interest is always associated with the rise of poverty level in their research done in USA. They also explain that monetary policy taken by some countries would be the determinant factors on rise and fallen of the poverty level in their countries.

### 3. Interest in Modern Financial System

Interest rates was introduced by Cambridge economists and been developed further with the emerges of several theories, namely, Keynes demand theory that elucidated the basis of money demand are speculations, business and precautions. Then, theory of Baumol (1952) that stipulated cost and profit on money, also Tobin theory (1956) that determined risk and store value as an income on it (Anuar Saaban dan Sanep Ahmad, 2013).

Latterly, interest theory had been evolved by Edward L. Whalen (1966)

that put money as a precautionary asset. According to Whalen, three determinant factors to his theory are liquidity cost, opportunity cost resulted from precaution and holding cash and average demand and money usage (Whalen, 1966). From the view of public demand, Friedman's theory (1956) and Bernett's (1980) were used widely in financial system.

Marwini supports the arguments with numbers of theories that are backboning the system until today such as abstinence theory, money rental with interest theory, productive-consumtibe theory, inflation theory and others.

In brief, the theories aforementioned are directed towards money demand where they are related in negative with interest rates and positively with real income (Anuar Saaban dan Sanep Ahmad, 2013). These events had made interest rates are moving like flesh and blood in modern financial system stimulated and backed by banking system all over the world.

The convention of prominent scholars at Academy of Islamic Research organized by Al-Azhar University in 1965 were collectively agreed on interest prohibition as been practiced in conventional bank and considered as *riba*.<sup>21</sup>

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<sup>21</sup>Misbahul Munir. *Konsep Riba Dalam Islam: Analisis Tematik Terhadap Konsep Riba*

Accordingly, it is clear for us that interest charged on banking customer is a prohibited riba, as explained and elucidated by many contemporary scholars based on Quranic teaching.

#### 4. Riba and Economy Conflicts

World had experienced many series of economic crisis that effect globally is one of the massive negative impact of riba in this century. Economic crisis which normally defined as significant contraction and recession hit any country or group of countries was proven by the failure of banks and financial institutions in playing their roles in supplying liquidity in market that had resulted the craches of securities and money markets .Among other effects from riba is an inequality in wealth distribution that contributed to poverty, destitution and related economic problems, where it might imbalance in socio economic of community that may threat human relationship in long run.<sup>22</sup>

Great depression is a good example for larger scale of economic crisis hit USA in the early of 20<sup>th</sup> centuries. Madhusudhanan S. (2014) lists five major factors behind this extremity event. First, the rise of interest rates done by banks in United Kingdom

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*Dalam Al-Quran dan Hadith*, (Kementerian Agama Fakultas Ekonomi Univeritas Islam Negeri Maulana Malik Ibrahim Malang, 2017)

<sup>22</sup>Ummi Kalsom, *Riba dan Bunga Bank dalam Islam*, Jurnal al-'Adl. Vol. 7. No.2., (2014), 67-83.

resulted from the standardization of gold price on that time. Second, bank panic among depositors that withdrawn all of their saving money from banks. Third, cash money in public hands where they preferred to hold it rather than saving in banks. Fourth, failure in investment activities and lastly, injustice wealth distribution. At a glance, many said factors are caused by riba activities that been used in loan and investment, that leads to economic crises which were rooted from sin of riba in our economy system.<sup>23</sup>

Financil crisis 2008 was caused by sub-prime mortgage that provides easy or loose financial policy in money lending for home-buyer even to risky clients with weak financial positions, expecting profits through home auction if the clients fail to meet their obligation on loan given from banks. Conversely, frequent of home auction over the period had made home prices dropped drastically up to 35 percent within 6 years before effected CDO (collateriliazed debt obligation) as backed securities for loans. This event brought significant changes in economic situation negatively.<sup>24</sup>

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<sup>23</sup>M. Fajar Hidayanto, *Praktek Riba dan Kesenjangan Sosial*, Jurnal La Riba (Jurnal Ekonomi Islam). Vol.2, No.2, (Desember 2008), 239-261.

<sup>24</sup>Mohamad, Mohammad Taquiuddin; Borhan, Joni Tamkin; Sulaiman Sulaiman@Mohamad, Ahmad Azam, *Krisi Kewangan Global: kestabilan dan Karakteristik Unik Perbankan Islam*, Jurnal Syariah. [S.l.], v. 22, n. 1, , ISSN 0127-1237 (January, 2014), 57-86.

This crisis began when non-quality asset buying securities could not been paid back by clients whereas dragged service provider on that chain such as banks and insurance companies failed to collect payments for bondholders.<sup>25</sup>

The news above supported by the report issued by The Financial Crisis Inquiry Commission by noting the management failure was the main factor of the crisis in America before it spreaded to Europe countries. Besides, the rise of interest rates in declining economy, corporate governance failure, excessive loan activities, ethics breaches, non-transparent credit agencies in evaluating securities' strengths also had contributed to the crisis.<sup>26</sup>

Looking to the past events, Great Depression 1929, Sub-Saharan African financial crisis, and 1980 crisis that hitted developing countries like South Korea were also rooted from unsolved debt problem. National debt potentially might be a burden especially after the increment

of interest rates that always changing time to time.<sup>27</sup>

Modern financial crisis was seemed more complicated and difficult compared to economic disaster in post second world war due to the interconnected all countries economically and financially through investments and international trade. Macroeconomics liberalization had impoverished numbers of society with reference to developing countries whereby factories and businesses were closed in retrenchment actions taken by the companies in order to operate them in other's less cost countries. Thus, it definitely contributed to unemployment and poverty.<sup>28</sup>

In 1995, when Mexican Peso countered by price crisis, Argentine at that time developed 6.7 percent yearly started from 1991 had dropped significantly affected by mexican's currency crisis (Perry dan Serven, 2004). The crisis got more obvious on late 1990 after appreciation of USD, decrement of Argentine's export and Brazillian's currency declination<sup>29</sup>

From other angle, Daniel Gros and Cinzia Alcidi (2010) prove that the

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<sup>25</sup>Noraini Mat Yaakub, Aisyah Abdul Rahman dan Ahmad Azam Sulaiman, *Struktur Pembiayaan dan Risiko Kecairan: Analisis Perbankan Islam Domestik dan Asing di Malaysia*. *Jurnal Ekonomi Malaysia*. 51. (2017) 133-144.

<sup>26</sup>Marina Karanikolos, Philipa Mladovsky, Jonathan Cylus, Sarah Thomson, Sanjay Basu, David Stuckler, Johan P Mackenbach, Martin McKee. (2013). *Financial crisis, austerity, and health in Europe*. Retrieved on March 2018 at: March 27, 2013  
[http://dx.doi.org/10.1016/%20S0140-6736\(13\)60102-6](http://dx.doi.org/10.1016/%20S0140-6736(13)60102-6).

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<sup>27</sup>Sara Hsu. *Financial Crises, 1929 to The Present*, (Cheltenham: Edward Elgar, 2013), 49.

<sup>28</sup>Michel Chossudovsky, *Economic and Political Weekly*. Vol. 32, No. 43 pp. 2794-2796, (October, 1997), 25-31

<sup>29</sup>Hausmann Ricardo dan Andres Velasco, *Hard Money's Soft Underbelly: Understanding the Argentine Crisis*, (Brooking Trade Forum, 2002), 59-104.



economic crisis might affect job opportunities simultaneously unemployment rate may increase, had significant touch on the happiness index in Europe and USA. According to statistics, drastic negative change to -3.2 points was an obvious event compared to its highest point between 1999 to 2001, when the recovery process was ongoing. This significant impact on human's life most likely will conduct their actions related to economic activities.

Survey had been done after financial crisis in USA, which knowly had disturbed investments and job sectors in local markets, and found where 90 percent accused the failure of mortgage companies was the main cause of the crisis while 88 percent believed money lenders and banks were the players behind it.<sup>30</sup>

The impacts of financial crisis 2008 were not only striking at financial or industrial sectors, family institutions also had been affected following the rise of basic needs' prices and jobless family leaders. For instance, in Nicaragua when it was hit by financial crisis on 1991, even median household income could not effort to buy basic needs for them Sakiko Fukuda-Parr (2008).

Jobless is confirmedly expected to bring deficient in human life due to insufficient economic sources indeed

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<sup>30</sup>Maurice E. Stucke, *Lesson From The Financial Crisis*, *Antitrust Law Journal*. Vol. 77. No.1 (2010), 313-341.

to basic necessities for human health. Ahmad faramarzia et al. (2018) confirm the significant correlation between unemployment and the utilization of healthy products. They explain when there is 1 percent increment in unployment rate, it may reduce the utilization of healthy products that amounted to USD 138 per capita. It is a strong indicator that shows the weakening of health quality of the community owing to jobless resulted from financial crisis.

Marina Karanikolos et al. analyse the negative impacts of financial crisis that had changed economic landscape to worst circumstances. Among the impacts are mental problem, high unemployment rate, increment on household debt, social problems and suicidal cases. Referring to the last impact, David Stuckler et al. (2009) illustrate the relationship between suicide and jobless, whereas 1 percent increment in the latter potentially make the rise of 0.79 percent of the former.<sup>31</sup> Therefore, Cutler DM et al. (2000) affirm that poverty and inequality of income always associated with suicide and other social crimes.

From the view of human happiness, Richard Easterlin study the

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<sup>31</sup>Marina Karanikolos, Philipa Mladovsky, Jonathan Cylus, Sarah Thomson, Sanjay Basu, David Stuckler, Johan P Mackenbach, Martin McKee., *Financial crisis, austerity, and health in Europe*. Retrieved on March 2018 at: (March 27, 2013) [http://www.antonioacasella.eu/salute/lancet\\_crisis\\_health\\_27mar13.pdf](http://www.antonioacasella.eu/salute/lancet_crisis_health_27mar13.pdf)

relationship between GDP and human happiness level in his article with the title 'Does Economic Growth Improve the Human Lot?'. By collecting data between year 1973 to 2009 that showed the consistent economic development, however it was found that the material improvement did not stimulate further synchronizely with human happiness. It means that human happiness still remains on the same level regardless the positive change that had occurred on economic development individually.<sup>32</sup>

In spiritual aspect, riba practice normally leads human to greediness, hatred, egoism and oppress the needies whereby it might weaken human relationship between society members. Hence, the scenario might enlarge the gap between lower and upper class people bigger and eventually encourage the rise of poverty issues in community.<sup>33</sup>

Baek reports that Al-Maqrizi had been reported to say that financial manipulation is just an injustice act, that could only happen in a problematic and morally damaged society.<sup>34</sup> People who are rejected their loan or financing application

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<sup>32</sup>Robert Skidelsky dan Edward Skidelsky, *How Much is Enough? Money and the Good life*, (New York: Other Press, 2012), 102-103.

<sup>33</sup>M. Fajar Hidayanto, *Praktek Riba dan Kesenjangan Sosial*, *Jurnal Ekonomi Islam*. *Jurnal La Riba (Jurnal Ekonomi Islam)*. Vol.2, No.2, (Desember, 2008), 239-261.

<sup>34</sup>Baek, Louis, *The Economic Thought of Classical Islam. Diogenes*, *Journal of the International Council of Philosophy and Humanistic Studies*, 39, (1991), 154.

may encouraged to deceive their documents due to greediness in fabricating their financial standing in fake.<sup>35</sup> This might be realised with assistance from banks which are targeting to increase their sale of financial products with high return.

Ali Abdul Karim (n.d) describes how riba in conventional loan that practised by financial institutions in western countries is the main factors for the crisis. Collateralized loan is a scheme where its interest rates always been revised and increase every year that brings more profit to banks and mortgage companies. Then, it really depress lower class people in paying their loan to banks since the amount is keep on changing. In other way, the accumulated loans in this system had multiplied the debts before it was gathered under single asset class where it only represents illusionary of wealth like CDO just for immediate risky profit.<sup>36</sup>

Al-Maqrizi, a prominent Islamic historian scholar, reported that there was a drought and disaster hit Egypt

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<sup>35</sup>Muhammad Aiman Izzat al-Maidani, *Al-Azmah al-Maliya al-'Alamiyah: Asbabuha Tada'iyatuha wa Mun'akisatuha 'ala al-Iqtisod al-'Alamiy wa al-'Arabiy wa al-Suriy*. Forum anjuran Pertubuhan Sains Ekonomi Syria 2009, (2009), Accessed from: <https://iefpedia.com> on March, 2018.

<sup>36</sup>Ali Abdul Karim Husain Al-Jabiri. *Al-Asbab Al-Kaminah wara Tafaqum al-Azmah al-Maliyah al-'Alamiyah wa Atharuha 'ala al-Iqtisod al-'Alami*, (t.t), Diakses dari <https://iefpedia.com> on February, 2018.

on year 1404 had claimed casualties on human and animal livestock. He further concluded that it was a curse from Allah because of the government had replaced gold and silver currency to paper money.<sup>37</sup>

Other reseachers respond in different ways towards the 2008 financial crisis. Some fo them refer to the unsound financial policies enforcement that allow self regulation and passive monitoring and supervision from authorities (Clarkson, 2009), financial policies failure and excessive on financial engineering (Hayford dan Malliaris, 2010). Callomiris (2008) relates the crisis with the moral problems exercised in financial industries that allow them to approve housing loan to unqualified and risky customer. Blanque (2002) adds mismanagement and fraudulent as *raison d'être* in exposing them to uncontrolled risk

Financial crisis normally been followed by economic crisis where the former initially is only happens within stock and capital market. Thus, if it could not be controlled and managed, it might spread and start to accumulate before effecting to the real economy situation which lead to symptoms such as inflation and recession on housing price. For instance, what we saw on 2008 crisis actually was started as financial crisis within USA before it began to spread and affected global financial

market, eventually turned to the economic crisis.<sup>38</sup>

## 5. Negative Impacts of Economic Conflicts on Humanity

Riba might not onluy affect the microeconomic level, but also brings harms to macroeconomic. It could be illustrated as follows:

1. Price increases from the merchants and traders as a response to increment of interest rates charged on their business loans.
2. Paying interest loans to banks is like paying statuory tax where the burden always on customer's load even they possess a buying power, moreover, if the buying power weakening after sometimes, loans' burden still remains the same that contribute to the increase in prices.
3. When sales drop while the loan commitment is still needed to pay, traders normally will choose to cut the cost where labor cost which consisted of salaries and wages, is the most favourite to be choosed in cost reduction. It will cause job lost that might entail economic problem as a consequence.
4. In other way, traders will search another alternatives in marketing their products by opening factories

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<sup>37</sup>Adam Abdullah, *The Islamic Currency*, (Kuala Lumpur: Perpustakaan Negara Malaysia, 2016).

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<sup>38</sup>Al-Qarni, Muhammad bin Nasr, *Al-Riba wa Athuru 'ala al-Azmah al-Iqtisodiyah al-'Alamiyah*, (2010), Diakses dari [iefpedia.com](http://iefpedia.com) pada Mac 2018.

outside the counties that might be profitable in order to payback their loan inclusive with the interest. It shall open wide opportunities to foreign manufacturers to export their products to local market in fulfilling the needs. This scenario is seemed to encourage economic collonization in today's modern world.

5. Riba regime from banking services providers will continuously being stable in places where the development is concretely needed. Big banks may spur their roles in riba progressively until they can control the capital market of the country by the name of economy (Al-Samira'i, 1984).

Hussein Al-asrag (2010) explains the consequences of economic crisis on the global economic in particular to the developing countries as below:

1. Slow economic growth.
2. Fall of commodity prices and export values.
3. Decline of foreign direct investment.
4. Disturbance of official development assistance as a platform to the growth of developing countries.
5. High volatility of currency exchange.
6. Shortage of current account balance for countries that heavily relied on commodities such as Sub-Saharan and OPEC countries as a response to the fall of oil prices.
7. High unemployment rate.

Ahmad Farras (2012) concludes the problems entailed from riba on socio economic of community:

1. Centralization of wealth among rich people and spread of poverty.
2. Social problems such as enmity and hatred that could bring obvious conflict in community between two different classes of people, poor and rich.
3. Encourage exploitation on other's wealth where riba does not really mobilize real economic outcome in making profit but it is only an illusionary profit.
4. Products will be expensive since it must be counted together with the cost of interest.

In brief, even riba did not bring harmfulness as worse as war or another nature disaster, however the long term implications such as series of economic crises, poverty, social problems, moral damages, and conflicts and wars between countries for economic interests left with deep scars particularly in today's globalization era where every unit in economy are connected to another through their centrepoinets like banks and stock markets. The effects of first and second world war almost could not be seen anymore in Japan and Germany after seventy years, but the effects of riba still moving and hitting people without exceptional like African countries which now are struggling with loan and interests polemics until today.

## 6. The proposal

The emergence of Islamic banks in early eighties had changed significantly the landscape of world financial. Tremendous growth besides the resilient of Islamic bank in recession period in 2008, had opened and attracted many economist to response on the industries that known with the prohibitions of riba, gharar and gambling elements.

Umar Chapra (1986) supported that the lost and profit sharing system -as applied in some of Islamic banking products- must adhere to the technical requirements then the positive changes might be realized by socio economic growth. It might assist in alleviating poverty, justice wealth distribution and balance job opportunities (Joni Tamkin, 2001).

## 7. Conclusion

As discussed above, riba - in conventional financial system- was proven promoting harms and creating conflicts on economic view. Threats that said by Allah to whom involved in riba were visualized by numbers of moral and social disasters that happened gradually as impacts of the greediness of human. Notwithstanding, interpretations made by traditional scholars also must be reflected since they were in consensus in concluding the meaning of 'harb' in the verse is really war between Allah and His servants on the judgement day. It describes to us how severe the punishment of Allah on riba

practitioners who destroy the balance of human's life and make money as a stepping stone to suck other's blood and sweat.

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